

Gastar Exploration Inc.
Form 10-Q
May 07, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2015
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 001-35211

GASTAR EXPLORATION INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	38-3531640 (I.R.S. Employer Identification No.)
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1331 Lamar Street, Suite 650 Houston, Texas (Address of principal executive offices) (713) 739-1800 (Registrant's telephone number, including area code)	77010 (Zip Code)
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The total number of outstanding common shares, \$0.001 par value per share, as of May 4, 2015 was 81,145,775.

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 FOR THE THREE MONTHS ENDED MARCH 31, 2015
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On November 14, 2013, Gastar Exploration Ltd., an Alberta, Canada corporation, changed its jurisdiction of incorporation to the State of Delaware and changed its name to “Gastar Exploration, Inc.” On January 31, 2014, Gastar Exploration, Inc. merged with and into Gastar Exploration USA, Inc., its direct subsidiary, as part of a reorganization to eliminate Gastar Exploration, Inc.’s holding company corporate structure. Pursuant to the merger agreement, shares of Gastar Exploration, Inc.’s common stock were converted into an equal number of shares of common stock of Gastar Exploration USA, Inc., and Gastar Exploration USA, Inc. changed its name to “Gastar Exploration Inc.” Gastar Exploration Inc. owns and continues to conduct Gastar Exploration, Inc.’s business in substantially the same manner as was being conducted prior to the merger.

Unless otherwise indicated or required by the context, (i) for any date or period prior to the January 31, 2014 merger described above, “Gastar,” the “Company,” “we,” “us,” “our” and similar terms refer collectively to Gastar Exploration, Inc. (formerly known as Gastar Exploration Ltd.) and its subsidiaries, including Gastar Exploration Inc. (formerly known as Gastar Exploration USA, Inc.), and for any date or period after January 31, 2014, such terms refer collectively to Gastar Exploration Inc. and its subsidiaries, (ii) “Gastar USA” refers to Gastar Exploration USA, Inc., which until January 31, 2014 was a first-tier subsidiary of Gastar Exploration, Inc. and its primary operating company, (iii) “Parent” refers to Gastar Exploration, Inc., (iv) all dollar amounts appearing in this Form 10-Q are stated in United States dollars (“U.S. dollars”) unless otherwise noted and (v) all financial data included in this Form 10-Q have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). General information about us can be found on our website at www.gastar.com. The information available on or through our website, or about us on any other website, is neither incorporated into, nor part of, this report. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other filings that we make with the U.S. Securities and Exchange Commission (“SEC”), as well as any amendments and exhibits to those reports, will be available free of charge through our website as soon as reasonably practicable after we file or furnish them to the SEC. Information is also available on the SEC website at www.sec.gov for our U.S. filings.

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Glossary of Terms

AMI	Area of mutual interest, an agreed designated geographic area where joint venturers or other industry partners have a right of participation in acquisitions and operations
Bbl	Barrel of oil, condensate or NGLs
Bbl/d	Barrels of oil, condensate or NGLs per day
Bcf	One billion cubic feet of natural gas
Bcfe	One billion cubic feet of natural gas equivalent, determined using the ratio of six thousand cubic feet of natural gas to one barrel of oil, condensate or NGLs
Boe	One barrel of oil equivalent determined using the ratio of six thousand cubic feet of natural gas to one barrel of oil, condensate or NGLs
Boe/d	Barrels of oil equivalent per day
Btu	British thermal unit, typically used in measuring natural gas energy content
CRP	Central receipt point
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States of America
Gross acres	Refers to acres in which we own a working interest
Gross wells	Refers to wells in which we have a working interest
MBbl	One thousand barrels of oil, condensate or NGLs
MBbl/d	One thousand barrels of oil, condensate or NGLs per day
MBoe	One thousand barrels of oil equivalent, calculated on the assumed energy equivalent basis of 6 MMcf of natural gas per MBoe
MBoe/d	One thousand barrels of oil equivalent per day
Mcf	One thousand cubic feet of natural gas
Mcf/d	One thousand cubic feet of natural gas per day
Mcfe	One thousand cubic feet of natural gas equivalent, calculated on the assumed energy equivalent basis of 1/6 of a barrel of oil per Mcf
MMBtu/d	One million British thermal units per day

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MMcf	One million cubic feet of natural gas
MMcf/d	One million cubic feet of natural gas per day
MMcfe	One million cubic feet of natural gas equivalent, calculated on the assumed energy equivalent basis of 1/6 of a barrel of oil per Mcf
MMcfe/d	One million cubic feet of natural gas equivalent per day, calculated on the assumed energy equivalent basis of 1/6 of a barrel of oil per Mcf
Net acres	Refers to our proportionate interest in acreage resulting from our ownership in gross acreage
Net wells	Refers to gross wells multiplied by our working interest in such wells
NGLs	Natural gas liquids
NYMEX	New York Mercantile Exchange
PBU	Performance based unit
psi	Pounds per square inch
U.S.	United States

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GASTAR EXPLORATION INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2015 (Unaudited)	December 31, 2014 (Unaudited)
	(in thousands, except share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$12,143	\$ 11,008
Accounts receivable, net of allowance for doubtful accounts of \$0, respectively	18,187	30,841
Commodity derivative contracts	18,815	19,687
Prepaid expenses	1,808	2,083
Total current assets	50,953	63,619
PROPERTY, PLANT AND EQUIPMENT:		
Oil and natural gas properties, full cost method of accounting:		
Unproved properties, excluded from amortization	120,341	128,274
Proved properties	1,174,581	1,124,367
Total oil and natural gas properties	1,294,922	1,252,641
Furniture and equipment	3,013	3,010
Total property, plant and equipment	1,297,935	1,255,651
Accumulated depreciation, depletion and amortization	(577,822)	(563,351)
Total property, plant and equipment, net	720,113	692,300
OTHER ASSETS:		
Commodity derivative contracts	13,404	7,815
Deferred charges, net	2,682	2,586
Advances to operators and other assets	2,770	9,474
Total other assets	18,856	19,875
TOTAL ASSETS	\$789,922	\$ 775,794
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$19,780	\$ 28,843
Revenue payable	8,258	9,122
Accrued interest	10,550	3,528
Accrued drilling and operating costs	6,598	5,977
Advances from non-operators	1,025	1,820
Commodity derivative contracts	56	—
Commodity derivative premium payable	2,472	2,481
Asset retirement obligation	84	82
Other accrued liabilities	1,975	3,175
Total current liabilities	50,798	55,028
LONG-TERM LIABILITIES:		
Long-term debt	380,916	360,303
Commodity derivative contracts	340	—
Commodity derivative premium payable	4,809	4,702
Asset retirement obligation	5,676	5,475

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Total long-term liabilities	391,741	370,480
Commitments and contingencies (Note 11)		
STOCKHOLDERS' EQUITY:		
Preferred stock, 40,000,000 shares authorized		
Series A Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized; 4,045,000 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively, with liquidation preference of \$25.00 per share	41	41
Series B Preferred stock, par value \$0.01 per share; 10,000,000 shares authorized; 2,140,000 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively, with liquidation preference of \$25.00 per share	21	21
Common stock, par value \$0.001 per share; 275,000,000 shares authorized; 80,145,775 and 78,632,810 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively		78
Additional paid-in capital	568,541	568,440
Accumulated deficit	(221,298)	(218,294)
Total stockholders' equity	347,383	350,286
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 789,922	\$ 775,794

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The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GASTAR EXPLORATION INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)

	For the Three Months Ended March 31,	
	2015	2014
	(in thousands, except share and per share data)	
REVENUES:		
Oil and condensate	\$ 15,353	\$ 16,778
Natural gas	6,700	15,419
NGLs	2,096	6,644
Total oil, condensate, natural gas and NGLs revenues	24,149	38,841
Gain (loss) on commodity derivatives contracts	10,223	(6,514)
Total revenues	34,372	32,327
EXPENSES:		
Production taxes	840	1,894
Lease operating expenses	6,019	4,044
Transportation, treating and gathering	497	625
Depreciation, depletion and amortization	14,471	12,382
Accretion of asset retirement obligation	125	122
General and administrative expense	4,248	4,763
Total expenses	26,200	23,830
INCOME FROM OPERATIONS	8,172	8,497
OTHER INCOME (EXPENSE):		
Interest expense	(7,561)	(6,891)
Investment income and other	3	7
Foreign transaction loss	—	(2)
INCOME BEFORE PROVISION FOR INCOME TAXES	614	1,611
Provision for income taxes	—	—
NET INCOME	614	1,611
Dividends on preferred stock	(3,618)	(3,576)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$(3,004)	\$(1,965)
NET LOSS PER SHARE OF COMMON STOCK ATTRIBUTABLE TO COMMON STOCKHOLDERS:		
Basic	\$(0.04)	\$(0.03)
Diluted	\$(0.04)	\$(0.03)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:		
Basic	77,114,826	58,204,532
Diluted	77,114,826	58,204,532

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GASTAR EXPLORATION INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	For the Three Months Ended March 31,	
	2015	2014
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$614	\$1,611
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	14,471	12,382
Stock-based compensation	1,526	1,533
Mark to market of commodity derivatives contracts:		
Total (gain) loss on commodity derivatives contracts	(10,223)	6,514
Cash settlements of matured commodity derivatives contracts, net	5,277	(3,015)
Cash premiums paid for commodity derivatives contracts	—	(71)
Amortization of deferred financing costs	822	733
Accretion of asset retirement obligation	125	122
Settlement of asset retirement obligation	—	(257)
Changes in operating assets and liabilities:		
Accounts receivable	14,279	(750)
Prepaid expenses	275	81
Accounts payable and accrued liabilities	5,957	4,169
Net cash provided by operating activities	33,123	23,052
CASH FLOWS FROM INVESTING ACTIVITIES:		
Development and purchase of oil and natural gas properties	(46,121)	(25,812)
Advances to operators	(1,753)	(5,001)
Acquisition of oil and natural gas properties - refund	—	4,209
Proceeds from (payment related to) sale of oil and natural gas properties	2,008	(341)
(Payments to) proceeds from non-operators	(795)	4,930
Purchase of furniture and equipment	(3)	(148)
Net cash used in investing activities	(46,664)	(22,163)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	25,000	—
Repayment of revolving credit facility	(5,000)	—
Proceeds from issuance of preferred stock, net of issuance costs	—	886
Dividends on preferred stock	(3,618)	(3,576)
Deferred financing charges	(281)	(135)
Tax withholding related to restricted stock and PBU vestings	(1,425)	(3,544)
Net cash provided by (used in) financing activities	14,676	(6,369)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,135	(5,480)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,008	32,393
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$12,143	\$26,913

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GASTAR EXPLORATION INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS